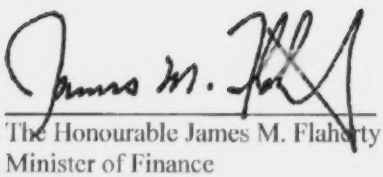
Office of the Superintendent of Financial Institutions Canada
Bureau du surintendant des institutions financières Canada

# Office of the Superintendent of Financial Institutions

## 2011-12

### Departmental Performance Report



The Honourable James M. Flaherty
Minister of Finance

OSFI
BSIF

Canada

# Table of Contents


Superintendent's Message ..... 1
SECTION I: DEPARTMENTAL OVERVIEW ..... 2
Raison d'être ..... 2
Responsibilities ..... 2
Strategic Outcomes and Program Activity Architecture (PAA) ..... 3
Organizational Priorities ..... 4
Risk Analysis ..... 6
Summary of Performance ..... 10
Expenditure Profile ..... 15
Estimates by Vote ..... 16
SECTION II: ANALYSIS OF PROGRAM ACTIVITIES BY STRATEGIC OUTCOME ..... 17
Strategic Outcome 1 ..... 17
Program Activity 1.1: Regulation and Supervision of Federally Regulated Financial Institutions ..... 17
Performance Summary and Analysis of Program Activity ..... 19
Lessons Learned ..... 24
Program Activity 1.2: Regulation and Supervision of Federally Regulated Private Pension Plans ..... 25
Performance Summary and Analysis of Program Activity ..... 26
Lessons Learned ..... 27
Program Activity 1.3: International Assistance ..... 29
Performance Summary and Analysis of Program Activity ..... 29
Lessons Learned ..... 29
Strategic Outcome 2 ..... 30
Program Activity 2.1: Actuarial Valuation and Advisory Services ..... 30
Performance Summary and Analysis of Program Activity ..... 32
Lessons Learned ..... 35
Internal Services ..... 36
Performance Summary and Analysis of Program Activity ..... 36
SECTION III: SUPPLEMENTARY INFORMATION ..... 38
Financial Highlights ..... 38
Financial Statements ..... 39
List of Supplementary Information Tables ..... 39
SECTION IV: OTHER ITEMS OF INTEREST ..... 40
Organizational Contact Information ..... 40

# Superintendent's Message

The past year has been an interesting and busy one for OSFI. In 2011-2012, we witnessed ongoing global economic turmoil, financial market volatility, historically low interest rates, and relatively slow economic growth in many countries. OSFI continued to monitor closely the impact of these events on the Canadian financial institutions and pension plans that we oversee. We increased our staff complement in specialized skill areas and enhanced our supervision of institutions and pension plans.

We maintained an active role in international forums, including the Financial Stability Board, the Basel Committee on Banking Supervision, the Senior Supervisors Group and the International Association of Insurance Supervisors. Through participation in these groups, OSFI ensures it is well positioned to learn from, and contribute to, discussions on enhancements to global financial regulatory frameworks.

Domestically, OSFI continued to work with the Department of Finance, the Bank of Canada, Canada Deposit Insurance Corporation, and the Financial Consumer Agency of Canada to discuss and coordinate approaches to oversight of the financial sector, and to continue regulatory refinements that reflect best practices.

In 2011-2012, OSFI paid increased attention to the capital planning activities of banks, given the importance of capital to deal with unexpected shocks, and the move to Basel III in 2013. In the insurance industry, we focused on the work plan for introducing more risk-sensitive approaches to regulatory capital and began preparation of a paper outlining future regulatory refinements for the life insurance industry.

Given the record levels of household debt in Canada, and that real estate based lending represents a significant portion of banks' balance sheets, OSFI also focused its attention on the issues of residential mortgages and home equity lines of credit. While domestic household spending supported Canada's economic recovery from the global financial crisis, many households are increasingly vulnerable to adverse economic shocks. In an effort to prevent these vulnerabilities from evolving into problems for the financial system, OSFI issued a draft Guideline on Residential Mortgage Underwriting Practices and Procedures in March 2012 (final version issued June 2012). The guidance builds on OSFI's domestic supervisory work, and reflects and expands upon the Financial Stability Board's Principles for Sound Residential Mortgage Underwriting (issued in the fall of 2011).

OSFI has always viewed strong corporate governance as an essential element of effective risk management. Weaknesses in corporate governance contributed to failures at a number of international financial institutions during the global financial turmoil. Accordingly, OSFI is placing even greater emphasis on promoting effective corporate governance at financial institutions in Canada. OSFI's Corporate Governance unit conducted a comparative review of governance practices at a number of institutions during 2011-2012, and we are using the results as a basis to update our Corporate Governance Guideline.

While the past year has been challenging, I am proud of how well OSFI has performed. Over its 25-year history, OSFI has worked to contribute to public confidence in a strong, stable and competitive financial system. Our people are the most important element of our effectiveness, and will continue to be so for the next 25 years and beyond.

# SECTION I: DEPARTMENTAL OVERVIEW

## Raison d'être

The Office of the Superintendent of Financial Institutions (OSFI) supervises and regulates all federally incorporated or registered deposit-taking institutions (e.g., banks), life insurance companies, property and casualty insurance companies, and federally regulated private pension plans.

OSFI safeguards depositors, policyholders and private pension plan members by enhancing the safety and soundness of federally regulated financial institutions and private pension plans.

The Office of the Chief Actuary (OCA) is a separate unit within OSFI and provides expert actuarial services and advice on the state of various public pension plans and on the financial implications of options being considered by policy makers. In conducting its work, the OCA plays a vital and independent role towards a financially sound and sustainable Canadian public retirement income system.

## Responsibilities

OSFI's legislated mandate was implemented in 1996 and under the legislation, OSFI's mandate is to:

- Supervise federally regulated financial institutions and private pension plans to determine whether they are in sound financial condition and meeting minimum plan funding requirements, respectively, and are complying with their governing law and supervisory requirements;
- Promptly advise institutions and plans in the event there are material deficiencies and take, or require management, boards or plan administrators to take, necessary corrective measures expeditiously;
- Advance and administer a regulatory framework that promotes the adoption of policies and procedures designed to control and manage risk; and
- Monitor and evaluate system-wide or sectoral issues that may impact institutions negatively.

OSFI's prudential mandate supports a safe and sound Canadian financial system.

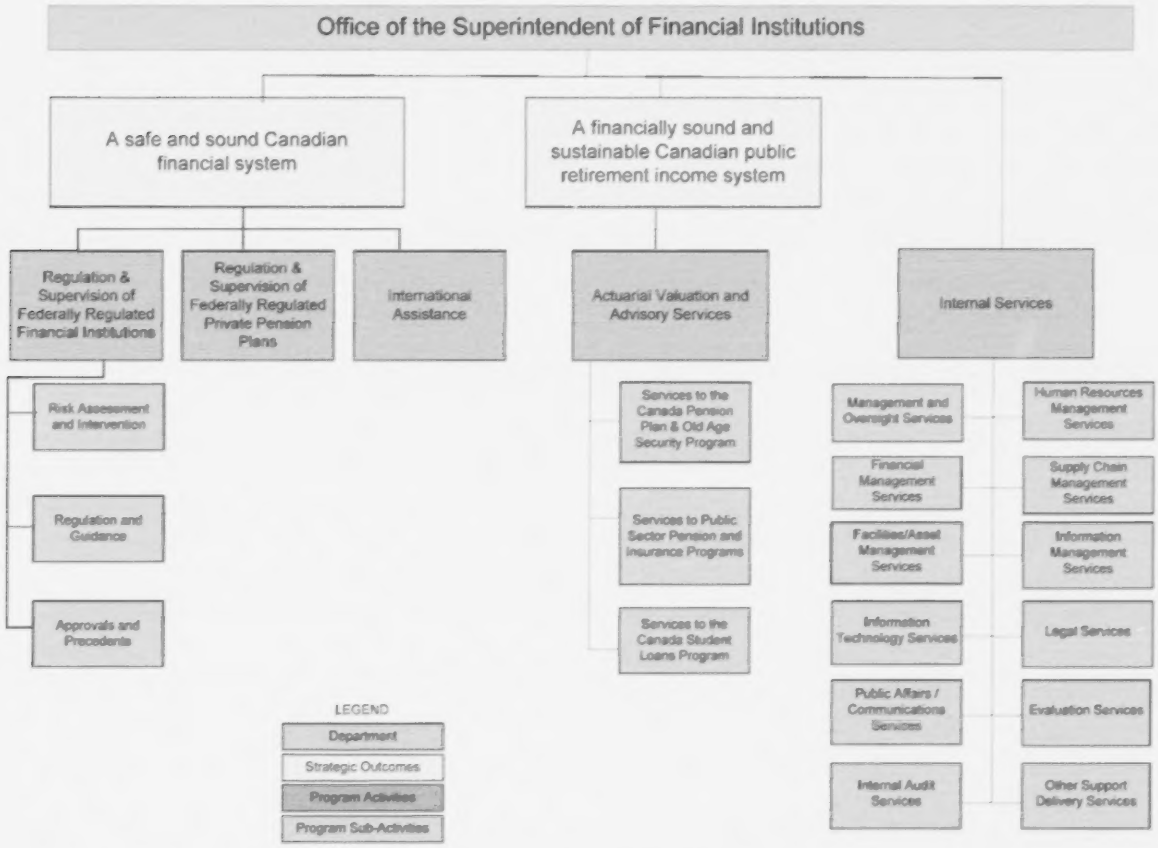
OSFI's legislation also acknowledges the need to allow institutions to compete effectively and take reasonable risks. It recognizes that management, boards of directors, and plan administrators are ultimately responsible and that financial institutions and pension plans can fail.

## Strategic Outcomes and Program Activity Architecture (PAA)

Primary to OSFI's mandate and central to its contribution to Canada's financial system are two strategic outcomes:

*1. A safe and sound Canadian financial system.*
*2. A financially sound and sustainable Canadian public retirement income system.*

The chart below illustrates OSFI's framework of program activities and program sub-activities, which roll-up and contribute to progress toward the strategic outcomes.


Office of the Superintendent of Financial Institutions
A safe and sound Canadian financial system
A financially sound and sustainable Canadian public retirement income system
Regulation & Supervision of Federally Regulated Financial Institutions
Regulation & Supervision of Federally Regulated Private Pension Plans
International Assistance
Actuarial Valuation and Advisory Services
Internal Services
Risk Assessment and Intervention
Regulation and Guidance
Approvals and Precedents
Services to the Canada Pension Plan & Old Age Security Program
Services to Public Sector Pension and Insurance Programs
Services to the Canada Student Loans Program
Management and Oversight Services
Financial Management Services
Facilities/Asset Management Services
Information Technology Services
Public Affairs / Communications Services
Internal Audit Services
Human Resources Management Services
Supply Chain Management Services
Information Management Services
Legal Services
Evaluation Services
Other Support Delivery Services
LEGEND
Department
Strategic Outcomes
Program Activities
Program Sub-Activities

Effective March 31, 2010, OSFI ceased its International Assistance program activity, which provided technical assistance to supervisory systems in emerging market economies. The Canadian International Development Agency (CIDA), which funded the majority of OSFI's costs in delivering this assistance, has continued the program in partnership with the Toronto International Leadership Centre for Financial Sector Supervision.

OSFI's PAA was modified in 2011-2012 to reflect the elimination of this program activity (effective 2012-2013 Main Estimates).

## Organizational Priorities

The following tables present a summary of achievements against OSFI's priorities in 2011-2012.

| Priority: | Type[1]: | Strategic Outcome |
|---|---|---|
| Risks Emanating from the Economy | Ongoing | Strategic Outcome 1 |

**Steps Taken**

- Monitored the Canadian and international economic environment for trends and potential shocks through OSFI's Emerging Risks Committee and targeted research.
- Conducted significant cross-sector reviews in the areas of:
  - Asset-liability management
  - Corporate governance
  - Structural interest rate risk
  - Stress tests
- Continued to conduct:
  - Risk management seminars
  - Supervisory colleges
  - Crisis management and industry information sessions
- Participated actively on various international committees, including:
  - Financial Stability Board (FSB)
  - Basel Committee on Banking Supervision (BCBS)
  - Senior Supervisors Group (SSG)
  - International Association of Insurance Supervisors (IAIS)

| Priority: | Type: | Strategic Outcome |
|---|---|---|
| Risks Emanating from Regulatory Reform | Ongoing | Strategic Outcome 1 |

**Steps Taken**

- Issued new/revised guidelines, advisories or letters on:
  - Capital Adequacy Requirements (update re securitization and market risk)
  - Non-Viability Contingent Capital
  - Liquidity Principles
  - Submission to United States re draft "Volcker Rule"
  - Residential Mortgage Underwriting Practices and Principles (draft guideline)
  - Internal Target Capital Ratio for Insurance Companies
  - Participating Account Management and Disclosure to Par and Adjustable Policyholders
  - Appointed Actuary: Legal Requirements, Qualifications and Peer Review (draft guideline)
  - Minimum Continuing Capital and Surplus Requirements (MCCSR) update
  - Minimum Capital Test (MCT) update
  - Mean Reversion in Models of Equity Returns
- Continued to conduct Qualitative Impact Studies (QIS) and capital monitoring to assess impacts of rules to be implemented or still under development.

[1] Type is defined as follows: **Previously committed to**—committed to in the first or second fiscal year before the subject year of the report; **Ongoing**—committed to at least three fiscal years before the subject year of the report; and **New**—newly committed to in the reporting year of the DPR.

- Carried out reviews of trading book and operational risk approaches.
- Continued development of the liquidity framework and liquidity requirements.
- IFRS / Disclosures
  - Issued a letter on OSFI's position regarding early adoption of IFRS.
  - Performed a targeted review of public disclosures to identify best practices and areas for improvement in financial reporting.
  - Posted letters to the industry to operationalize Pillar 3 disclosures in several areas, such as remuneration disclosures, Basel 2.5 enhancements and revisions disclosures.
  - Presented at the FSB roundtable on disclosures and at the Canadian Public Accountability Board symposium on audit quality.
  - Continued to work through the BCBS and IAIS to influence the International Accounting Standards Board (IASB) on accounting decisions.
  - Provided positions on changes in accounting for IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts (Phase II).
  - Continued to monitor IASB and Financial Accounting Standards Board decisions as they impact the Canadian capital regime.

| **Priority:** | **Type:** | **Strategic Outcome** |
|---|---|---|
| A High-Performing and Effective Workforce | Ongoing | Strategic Outcomes 1 and 2 |

- Built on existing strength and deep specialization by increasing the staff complement in critical areas such as Capital, Supervision Deposit-Taking Group, and Actuarial divisions.
- Reviewed and prioritized employee learning needs and provided specialized training to enhance OSFI staff knowledge base, expertise and leadership.
- Conducted a compensation market survey to ensure we continue to meet our stated compensation philosophy.
- Strengthened Human Resource frameworks (in areas such as compensation, performance management and HR planning) and internal controls.

| **Priority:** | **Type:** | **Strategic Outcome** |
|---|---|---|
| An Enhanced Corporate Infrastructure | Ongoing | Strategic Outcomes 1 and 2 |

- Initiated renewal of the Tri-Agency Database System, which is shared with the Bank of Canada and Canada Deposit Insurance Corporation, to modernize the processing system supporting all three organizations to collect, validate, manage and maintain financial returns.
- Initiated major technology renewal projects for:
  - Document/records management
  - Website and intranet site
  - Business Intelligence
  - Risk Assessment System for Pensions

## Risk Analysis

Enterprise-Wide Risk Management

The environment within which OSFI operates presents an array of challenges to the achievement of its mandate and objectives. While many of these challenges are consistently present, the extent to which they present a risk to OSFI's objectives varies, depending on economic and financial conditions and the financial industry environment. OSFI's ability to achieve its mandate depends on the timeliness and effectiveness with which it identifies, evaluates, prioritizes, and develops initiatives to address areas where its exposure is greatest.

OSFI's Enterprise Risk Management (ERM) framework divides risks into external and internal categories. The external risk category consists of economic and financial conditions, the financial industry's environment, OSFI's legal environment and catastrophic events. External risks arise from events that OSFI can potentially influence but cannot control, but must be able to monitor and react to in order to mitigate the impact. The internal risk category consists of risks within OSFI's control that can broadly be categorized as people, processes, systems and culture.

### External Risks

Economic, Industry and Regulatory Environment

During 2011-2012, OSFI remained concerned about risks in the global economy, as vulnerabilities that first surfaced in global credit markets in 2007 have not been fully resolved. External risks include growing sovereign debt risk, particularly in Europe, with potential implications for Canadian Federally Regulated Financial Institutions (FRFIs), and the protracted weak economic recovery in the United States. Domestically, while the Canadian financial system remains sound, rising household indebtedness is seen as a source of systemic vulnerability. While domestic household spending supported Canada's economic recovery from the global financial crisis, many households are increasingly vulnerable to adverse economic shocks.

Interest rates have been at or near historically low levels in most advanced economies. This has presented two risks to the financial system. First, persistently low interest rates put pressure on the balance sheets of institutional investors, particularly those with long-duration liabilities, such as life insurance companies and defined-benefit pension plans. Low interest rates reduce interest earned on their assets and increase the current cost of future liabilities, creating tensions in meeting minimum returns offered to policyholders and paying pensions to plan beneficiaries. Second, an expectation of continuing low interest rates can encourage a search for yield through riskier assets or investment strategies. In particular, investors may seek to boost returns through additional leverage or by amplifying their exposure to both interest rate and credit risk.

During 2011-2012, OSFI worked with various domestic partners – including the Bank of Canada, the Department of Finance, the Canada Deposit Insurance Corporation, and the Financial Consumer Agency of Canada – to review developments in the financial system and lessons learned, and to discuss and coordinate approaches to oversight of the financial sector. OSFI continued to enhance collaboration with the Bank of Canada and the Department of Finance on analysis of macroeconomic and systemic risk issues.

OSFI also continued to participate actively in international fora to develop and implement best practices. These include the Financial Stability Board, the Basel Committee on Banking Supervision, the Senior Supervisors Group and the International Association of Insurance Supervisors.

Global financial events require that OSFI, like all financial sector regulators and supervisors, be in a position to respond effectively to a constantly evolving economic and regulatory environment. On a micro-level, prevailing conditions continue to put pressure on the Regulation Sector to provide interpretations or to reassess existing guidance to ensure its effectiveness under stressful and evolving conditions. Specific strategies have been put in place within individual divisions, consistent with specialized responsibilities and current projects, to address ongoing industry developments. Resources continue to be reassessed and priorities realigned as necessary. Further, OSFI continues to monitor and analyze emerging risks both at the institution and system-wide levels.

Capital Adequacy

OSFI continued its assessment and update of the Minimum Continuing Capital and Surplus Requirements (MCCSR) for life insurance companies and the Minimum Capital Test (MCT) for property and casualty insurance companies to reflect lessons learned from global financial events. Discussions progressed on using internal models for statutory capital requirement purposes for Property and Casualty insurers and enhancing the segregated funds capital requirement methodology for insurers using an internal model, with the expectation of implementing these new frameworks or methodologies in a couple of years. The development of the standardized approach for Life insurers also progressed as OSFI conducted a quantitative impact study on credit, market and insurance risk and held discussions with the industry. For P&C insurers, OSFI put in place a more risk based capital Guideline and continues to explore other areas of the guideline that need to be updated (for 2014) to better reflect the risks being faced by the industry. In 2011-2012, OSFI continued to participate in a number of IAIS initiatives including the development of a Common Assessment Framework for internationally active insurance groups.

Initiatives mandated by the G-20 and the Financial Stability Board, coupled with the market developments in Europe and the United States, have required continuing focus on implementation of enhanced measurement of risks for deposit taking institutions and the implications of market structural reforms. As a result, in April 2012 the Basel Committee on Banking Supervision introduced a regulatory consistency assessment program to monitor and promote consistent application of the Basel III rules. The Basel Committee now publishes regular progress reports on Basel II and Basel III implementation in member countries. A multi-year program reviewing the details of individual countries' implementation of Basel III began in 2012 and has scheduled a review of Canada in the fall of 2013. As well, OSFI engaged in international dialogues that led to the development of proposals for the capitalization of exposures to central counterparties through which a larger share of derivative trades will be cleared. And, it was engaged in the international discussions that resulted in a set of common metrics to support the identification of globally systemically important financial institutions and additional capital buffers for those institutions.

Changes to International Financial Reporting Standards (IFRS)

With most of OSFI's regulated institutions using IFRS this year, key accounting changes proposed by the International Accounting Standards Board (IASB) will impact both our institutions and OSFI's regulatory framework. Key changes that OSFI is actively working with our stakeholders on are accounting for insurance liabilities and financial instruments measurement, classification and impairment. Given its reliance on audited financial statements in its supervision process, it is crucial that OSFI understand and, when practicable, work with the IASB to ensure such changes are representative of the risk of the business of FRFIs so that OSFI will continue to be able to perform accurate risk assessments of financial institutions and will be able to adjust its regulatory capital framework as required.

Pension Environment

During 2011, federally regulated private pension plans operated in an environment of renewed economic uncertainty, equity market volatility and further declines in long-term interest rates. The solvency position of defined benefit plans declined significantly in 2011, due primarily to the effects of lower interest rates on plan liabilities. Although the impact of lower solvency ratios on pension plans' funding requirements will be moderated by recently implemented changes to federal funding rules, OSFI expects many defined benefit pension plans to face materially higher required contributions in 2012. The current environment also poses challenges for members of defined contribution pension plans in achieving their retirement savings and income objectives.

As part of an ongoing emphasis on the effectiveness and efficiency of its operations, OSFI has initiated an important upgrade to the pension supervisory system supporting its risk assessment framework. The main pillars of that framework for pension plans are: tiered risk indicators, solvency testing, on-site examinations, the watch list, use of intervention powers and ad hoc reviews.

## Internal Risks

People

OSFI's success is dependent upon having employees with highly specialized knowledge, skills and experience to regulate and supervise financial institutions, identify significant issues, and perform accurate risk assessments.

A volatile global economy, increasingly complex products, changes to prudential regulation and emerging risks in the industry also mean that OSFI needs to be able to continue to attract, motivate, develop and retain skilled people, particularly those whose skills are in demand in the financial sector. OSFI has focussed on attracting the talent that it needs and maintaining a high level of employee satisfaction necessary to retain such talent.

Although resource levels and related staffing efforts have generally stabilized, given growth and projected turnover levels due primarily to retirement, there continues to be an increased emphasis on training, knowledge transfer and new employee integration. In light of this, individual learning plans were developed for all employees. Further, there is a continued priority on providing specialized training on developing regulatory issues and supervisory standards (e.g., International Financial Reporting Standards, liquidity, Internal Capital Adequacy Assessment Process (ICAAP), life insurance capital initiatives, and Basel III).

Systems

Enabling technology and a robust, secure and well-supported information technology (IT) infrastructure are key success factors to OSFI in meeting its mandate. OSFI must ensure that the necessary information systems and infrastructure are in place to effectively support its supervisory and regulatory activities. The implementation of an IM/IT strategy and supporting renewal program is well underway and is being closely monitored and evaluated to ensure targeted deliverables are achieved as planned.

## Summary of Performance

The tables below identify OSFI's financial and human resources, planned and actual, for the 2011-2012 fiscal year.

**2011–2012 Financial Resources (millions)**

| Planned Spending | Total Authorities | Actual Spending |
|---|---|---|
| $117.6 | $117.6 | $124.8 |

**2011–2012 Human Resources (Full-Time Equivalents)**

| Planned | Actual | Difference |
|---|---|---|
| 563 | 593 | (30) |

OSFI's total 2011-2012 spending of $124.8 million is $7.2 million (6.1%) higher than its initial planned spending of $117.6 million, largely driven by personnel costs ($9.2 million higher than its initial planned spending). During the year, OSFI approved a net increase in its full-time equivalents (FTEs) of 30 to address a higher workload resulting from new permanent requirements and to acquire specialized expertise. Additionally, OSFI adjusted the salary structure for its non-unionized employees to more effectively attract and retain qualified staff as recommended by the Office of the Auditor General in its 2010 Fall Report. Lastly, the organization incurred costs related to the severance curtailment for non-unionized employees that came into effect October 1, 2011. This is partially offset by savings of $2.2 million achieved in other areas, primarily in professional and special services, due to revised implementation timelines and more accurate costs estimates as OSFI has completed the second year of its five-year Information Technology Renewal (ITR) Program. OSFI also realized savings in travel, hospitality and other discretionary spending areas achieved from continued judicious management of these expenditures.

**Progress Toward Strategic Outcome 1:** ***A safe and sound Canadian financial system.***

A properly functioning financial system is one that consumers and other stakeholders (inside and outside Canada) have a high degree of confidence in and that makes a material contribution to Canada's economic performance. OSFI is the primary regulator and supervisor of all federally registered financial institutions, numbering 422 at March 31, 2012, and some 1,354 federally registered private pension plans. The achievement of OSFI's strategic outcomes, which are shared by partners within government and the private sector, provides an essential foundation for a productive and competitive economy.

OSFI safeguards depositors, policyholders and private pension plan members by enhancing the safety and soundness of federally regulated financial institutions and private pension plans. Three program activities support this strategic outcome:

1. Regulation and Supervision of Federally Regulated Financial Institutions (FRFIs)
2. Regulation and Supervision of Federally Regulated Private Pension Plans

3. International Assistance[2]

On a biennial basis, OSFI engages an independent organization to conduct the Financial Institutions Survey[3] (FIS), which includes surveying and interviewing Chief Executive Officers and other senior executives of deposit-taking institutions (banks and trust companies) and insurance companies (Life, P&C and Fraternal). The FIS was last completed during 2010-2011 and included the performance indicator for Strategic Outcome One. Results indicated a strong majority (92%) of respondents believe OSFI is effective in monitoring and supervising their company / institution.

The table below presents a summary of OSFI's performance during the 2011-2012 fiscal year towards achieving its first strategic outcome.

| Strategic Outcome 1: A safe and sound Canadian financial system. | | |
|---|---|---|
| **Performance Indicators** | **Targets** | **2011-2012 Performance** |
| Percentage of knowledgeable observers[4] that rate OSFI as somewhat or very effective in monitoring and supervising their institution or pension plan. | 70% | A strong majority (92%) of FRFI senior executives believe OSFI is effective in monitoring and supervising their company / institution. *Source: Report on Financial Institutions Survey 2010* |
| Percentage of estimated recoveries on failed institutions (amount recovered per dollar of claim). | 90% | Total weighted average recoveries were 100% at 2011-2012 year end, which exceeds the set target of 90%. *Source: Canada Deposit Insurance Corporation, Agents, Liquidators* |
| Percentage of estimated recoveries on pension plans that have terminated under-funded. | 85% | Six pension plans terminated under-funded in 2011-2012. The current estimated recovery ratio is 94%. *Source: Internal data* |

The table below presents OSFI's planned and actual spending by program activity for Strategic Outcome 1, and a comparison to actual spending in the previous year.

| Program Activity | 2010-2011 Actual Spending | 2011-2012 | | | | Alignment to Government of Canada Outcomes |
|---|---|---|---|---|---|---|
| | | Main Estimates | Planned Spending | Total Authorities | Actual Spending | |
| 1.1 Regulation and Supervision of Federally Regulated Financial Institutions | $55.5 | $57.8 | $57.8 | $57.8 | $62.8 | ▪ Strong economic growth |

[2] Effective March 31, 2010, OSFI ceased its International Assistance program activity – refer to *Section II - 1.3 Program Activity: International Assistance* for further information.

[3] The Strategic Counsel, an independent research firm, conducted the consultation on OSFI's behalf. In the spring and summer of 2010, 191 Chief Executive Officers and other senior executives of deposit-taking institutions (banks and trust companies) and insurance companies (Life, P&C and Fraternal) participated in the study. This is a completion rate of approximately 73% of eligible institutions. The identity of respondents was not disclosed to OSFI. The report is available on OSFI's Consultations and Surveys Web page: http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=649

[4] Senior executives, plan administrators, and professional advisors who act on behalf of federally regulated financial institutions and private pension plans.

| | | | | | | |
|---|---|---|---|---|---|---|
| 1.2 Regulation and Supervision of Federally Regulated Private Pension Plans | $4.5 | $5.6 | $5.6 | $5.6 | $5.5 | ▪ Income security for Canadians |
| 1.3 International Assistance | $0.4 | $0.0 | $0.0 | $0.0 | $0.0 | ▪ A safe and secure world through international co-operation |
| **Total (millions)** | $60.4 | $63.4 | $63.4 | $63.4 | $68.3 | |

OSFI's actual spending in 2011-2012 towards its Strategic Outcome 1 was $68.3 million, $4.9 million, or 7.7%, higher than planned. The increase in the Regulation and Supervision of Federally Regulated Financial Institutions program activity is primarily attributed to an increase of 21 FTEs over the initial planned complement to address higher workload from new permanent demands, more requirements surrounding internationally-active financial institutions, and the need for additional actuarial expertise. This is partially offset by lower than planned professional and special services costs, travel, hospitality and other discretionary spending as explained in the opening paragraph under "Summary of Performance".

The increase in actual spending in Strategic Outcome 1 of $7.9 million, or 13.1%, from the previous year is mainly attributed to a growth of 24 FTEs over the previous year's complement, normal economic and merit increases and an increase in other personnel costs as explained under "Summary of Performance". The year-over-year reduction in International Assistance is due to the cessation of the program activity.

**Progress Toward Strategic Outcome 2:** ***A financially sound and sustainable Canadian public retirement income system.***

This strategic outcome is supported by the Office of the Chief Actuary (OCA). The OCA is continuously involved in preparing various experience studies and research covering a wide range of social security, demographic and economic issues that may affect the financial status of pension or benefits plans. Some of these studies also serve to support policy makers in developing and analysing various policy options in the context of plan reforms. The information presented in these studies could benefit private sector organizations that evaluate social security or private pension plan schemes.

The most recent external peer review on the Canada Pension Plan (CPP) was completed in March 2011. The external peer review panel's report published in May 2011[5] states that the 25th Actuarial Report meets all professional standards of practice and statutory requirements.

In 2011-2012, the OCA maintained the tradition of continual improvement of actuarial methodologies by applying extensive research and sophisticated methods towards addressing the recommendations of the CPP Peer Review Panel. The recommendations covered factors such as data, methodology, communication of results, and other actuarial issues. Resulting improvements will be reflected in the 26th CPP Actuarial Report, under way for 2012-2013.

[5] Report available at the following link: http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/oca/reviews/AR25_e.pdf

Also during this reporting period, the Office of the Parliamentary Budget Officer (PBO) commissioned Mercer (Canada) Limited for an independent review with regard to costing provided by the OCA's Public Pensions Section. In its report dated February 17, 2012, Mercer affirmed that the results presented by the OCA were reasonable. The achievement of OSFI's second strategic outcome provides an essential contribution to income security for Canadians.

The table below presents a summary of OSFI's performance during the 2011-2012 fiscal year towards achieving its Strategic Outcome 2.

| **Strategic Outcome 2: A financially sound and sustainable Canadian public retirement income system.** | | |
|---|---|---|
| **Performance Indicators** | **Targets** | **2011–2012 Performance** |
| Panel of Canadian peer actuaries selected by an international and independent body attest that the Chief Actuary and staff: have adequate professional experience, complete work in compliance with professional standards and statutory requirements, access adequate information and complete relevant data tests and analysis, use reasonable methods and assumptions in completing actuarial reports and that these reports fairly communicate the results of the work performed. | Unanimous agreement amongst peers | The external peer review panel's findings published in May 2011 show there is unanimous agreement that the Chief Actuary and staff have adequate professional experience, complete work in compliance with professional standards and statutory requirements, access adequate information and complete relevant data tests and analysis, use reasonable methods and assumptions in completing actuarial reports and that the 25th Actuarial Report on the Canada Pension Plan (CPP) fairly communicates the results of the work performed by the Chief Actuary and his staff.<br>Source: *Review of the Twenty-Fifth Actuarial Report on the Canada Pension Plan* dated March 16, 2011, conducted by the CPP Actuarial Review Panel. |
| Adequacy of professional experience of the Chief Actuary and staff.<br>*AND/OR*<br>Compliance with Canadian and international professional standards. | Unanimous agreement amongst peers<br><br>Unanimous agreement amongst peers | The external peer review panel's findings published in May 2011 show that the 25th Actuarial Report on the Canada Pension Plan complies with all relevant professional standards of practice and statutory requirements, and that the professional experience of the Chief Actuary and his staff who worked on this report meets the high standard required for this work.<br>*Source: Review of the Twenty-Fifth Actuarial Report on the Canada Pension Plan* dated March 16, 2011, conducted by the CPP Actuarial Review Panel. |

The table below presents OSFI's planned and actual spending by program activity for Strategic Outcome 2, and a comparison to actual spending in the previous year.

| **Program Activity** | **2010-2011 Actual Spending** | **2011-2012** | | | | **Alignment to Government of Canada Outcomes** |
|---|---|---|---|---|---|---|
| | | **Main Estimates** | **Planned Spending** | **Total Authorities** | **Actual Spending** | |
| 2.1 Actuarial Valuation and Advisory Services | $4.2 | $4.5 | $4.5 | $4.5 | $4.2 | ▪ Income security for Canadians |
| **Total (millions)** | $4.2 | $4.5 | $4.5 | $4.5 | $4.2 | |

OSFI's actual spending in 2011-2012 towards its Strategic Outcome 2 was $4.2 million, which is $0.3 million or 6.7%, lower than planned. The variance is mainly due to vacancies that arose during the year, resulting in 4 fewer FTEs than planned. Year-over-year expenditures are flat as the increase in personnel costs, largely related to normal economic and merit increases, are offset by a reduction in professional services due to the triennial Canada Pension Plan peer review that occurred in 2010-2011.

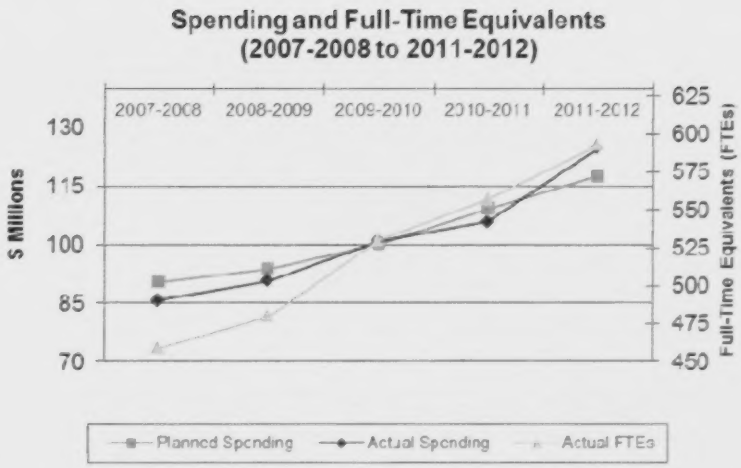
| Program Activity supporting both Strategic Outcomes: Internal Services | | | | | | |
|---|---|---|---|---|---|---|
| | 2010-2011 | 2011-2012 | | | | Alignment to Government of Canada Outcomes |
| Program Activity | Actual Spending | Main Estimates | Planned Spending | Total Authorities | Actual Spending | |
| Internal Services | $41.3 | $49.7 | $49.7 | $49.7 | $52.3 | N/A |
| **Total (millions)** | $41.3 | $49.7 | $49.7 | $49.7 | $52.3 | |

OSFI's actual spending in 2011-2012 for Internal Services was $52.3 million, which is $2.6 million, or 5.2%, higher than planned. The variance is attributed to the retrofit of new office space in Toronto and Ottawa, and an increase of 11 FTEs over the initial planned complement to support the significant growth in OSFI's staff complement in the past few years. This is partially offset by savings from the revised cost estimates and implementation timelines of projects in the Information Technology Renewal (ITR) Program.

The increase in actual spending of $11.0 million, or 26.6%, from the previous year is attributed to costs associated with the implementation of the ITR Program, an increase of 12 FTEs over the previous year's complement from the filling of approved vacancies and the full-year impact of new resources hired in the previous year.

## Expenditure Profile

The "Spending and Full-Time Equivalents" table presents a five-year trend of OSFI's planned and actual spending, and actual FTEs. OSFI's personnel costs typically account for approximately 75% of its spending, which explains the correlation between the spending and FTE trend lines. During 2008-2009, OSFI increased its FTEs by 4.6% over the previous year by hiring employees with special knowledge of credit, market and operational risks to focus more effort on higher risk institutions and products, and the early detection of problem loan portfolios. In 2009-2010, OSFI further increased its FTE complement by 10.4% driven by the full-year impact of new resources hired during the previous year and new positions added in the Corporate Services Sector to support the significant growth in staff complement in the past few years. In 2010-2011 and 2011-2012, OSFI increased its regulatory and supervisory resources to support the need for new and more sophisticated risk-sensitive liquidity, leverage and capital rules, to enhance its specialization in the Life and P&C industries, to fulfill its international commitments, and to address higher workloads from new international initiatives and supervision of internationally active financial institutions. This resulted in a growth of 5.1% and 6.5% in 2010-2011 and 2011-2012, respectively. The variance between actual and planned spending in 2011-2012 is primarily due to the approval of additional positions after the initial plan to address a higher workload resulting from new permanent requirements and to acquire specialized expertise as explained in the "Summary of Performance" section on page 10.




OSFI's total actual spending rose by 5.9% in 2008-2009. During this period, OSFI completed the first phase of the Pensions Processes and Systems Renewal Initiative. The second phase of this project began in 2009-2010 and is expected to be completed early 2012-2013. Total spending in 2009-2010 increased by 11.2% over the prior year. The increase is attributed to a 10.4% increase in FTEs, normal economic and merit increases in employee compensation and the 15-basis-point increase in the Employee Benefit Plan rate as prescribed by TBS. In 2010–2011, OSFI's expenses grew by 4.9% largely due to the full-year impact of the additional resources added in 2009-2010 and higher IM/IT costs associated with the implementation of OSFI's approved IM/IT Strategy. Actual spending in 2011-2012 increased by 17.8%, primarily driven by a 6.5% increase in FTEs, an adjustment to the compensation structure and one-time payouts associated with the curtailment of severance for non-unionized employees.

## Estimates by Vote

For information on OSFI's organizational Votes and/or statutory expenditures, please see the Public Accounts of Canada 2012 (Volume II). An electronic version of the Public Accounts 2012 is available on the Public Works and Government Services Canada's website.[i]

# SECTION II: ANALYSIS OF PROGRAM ACTIVITIES BY STRATEGIC OUTCOME

## Strategic Outcome 1

***A safe and sound Canadian financial system.***

### Program Activity 1.1: Regulation and Supervision of Federally Regulated Financial Institutions

This program involves regulating and supervising FRFIs to determine whether they are in sound financial condition and are complying with their governing law and supervisory requirements; monitor system-wide or sectoral issues that may impact FRFIs negatively; and intervening in a timely manner to protect depositors and policyholders from undue loss, while recognizing that management and boards of directors are ultimately responsible, and that financial institutions can fail.

Costs for this program are recovered through base assessments and user fees and charges covered under the *Bank Act*, *Trust and Loan Companies Act*, *Insurance Companies Act* and *Cooperative Credit Associations Act*. OSFI also provides supervision services to the provinces, for which its costs are recovered on a fee for service basis.

This program has three sub-activities:

1. Risk Assessment and Intervention: This program involves the administration and application of an effective supervisory process to assess the safety and soundness of FRFIs by evaluating an institution's risk profile, financial condition, risk management processes, and compliance with applicable laws and regulations. This program includes activities to monitor and supervise financial institutions; monitor industry and environmental factors to identify emerging risks; and intervene by exercising supervisory powers to take, or require management or boards to take, necessary corrective measures in a timely manner to protect depositors and policy holders, while recognizing that all failures cannot be prevented.
2. Regulation and Guidance: This program involves advancing and administering a regulatory framework that promotes the adoption of sound risk management practices, policies and procedures. This program encompasses the development of regulations, the issuance of guidance, providing input into federal legislation and regulations affecting financial institutions; contributions to accounting, auditing and actuarial standards; and involvement in international regulatory activities.
3. Approvals and Precedents: Federally regulated financial institutions are required to seek regulatory approval for certain types of transactions. This program: evaluates and processes applications for regulatory consent; establishes positions on the interpretation and application of the federal financial institutions legislation and regulations; identifies precedential transactions that may raise policy issues and develops rulings that recognize

the need to allow institutions to compete effectively while undertaking reasonable risks that do not unduly impact OSFI's primary stakeholders, the policyholders and depositors of FRFIs.

| 2011-2012 Financial Resources ($ millions) | | | |
|---|---|---|---|
| **Sub-Activity** | **Planned Spending** | **Total Authorities** | **Actual Spending** |
| Risk Assessment and Intervention | $38.3 | $38.3 | $44.1 |
| Regulation and Guidance | $13.5 | $13.5 | $13.5 |
| Approvals and Precedents | $6.0 | $6.0 | $5.2 |
| **Total** | **$57.8** | **$57.8** | **$62.8** |

| 2011-2012 Human Resources (FTEs) | | | |
|---|---|---|---|
| **Sub-Activity** | **Planned** | **Actual** | **Difference** |
| Risk Assessment and Intervention | 230 | 264 | (34) |
| Regulation and Guidance | 81 | 74 | 7 |
| Approvals and Precedents | 30 | 24 | 6 |
| **Total** | 341 | 362 | (21) |

The additional spending of $5.0 million over plan is driven by an increase in personnel costs, as explained in the "Summary of Performance" section of this report.

The related expected results, performance indicators, targets, and performance status for the three interrelated activities in this program activity are identified in the following table.

| **Program Activity 1.1: Regulation and Supervision of Federally Regulated Financial Institutions** | | | |
|---|---|---|---|
| **Expected Results** | **Performance Indicators** | **Targets** | **Actual Results** |
| Protect depositors and policyholders while recognizing that all failures cannot be prevented. | Percentage of estimated recoveries on failed institutions[6] (amount recovered per dollar of claim) *Source: Canada Deposit Insurance Corporation, Agents, Liquidators* | 90% | 100% |
| **Sub-Activity 1.1.1: Risk Assessment and Intervention** | | | |
| Accurate risk assessments. | Percentage of knowledgeable observers who agree that their institution's Composite Risk Rating is appropriate. *Source: Report on Financial Institutions Survey 2010* | 70% | 91% |
| Timely and effective | Time to issue Supervisory Letter (within prescribed | 80% (of | 76% |

[6] This measure is a proxy for whether OSFI intervened early enough to prevent undue loss to depositors and/or policyholders. Estimated recovery is the amount on the dollar per claim each policyholder or depositor would receive upon the completion of the liquidation. Expectation > $0.90.

| Program Activity 1.1: Regulation and Supervision of Federally Regulated Financial Institutions | | | |
|---|---|---|---|
| **Expected Results** | **Performance Indicators** | **Targets** | **Actual Results** |
| intervention and feedback. | target days) *Source: Internal* | letters are issued within 45 days) | |
| **Sub-Activity 1.1.2: Regulation and Guidance** | | | |
| Regulations, guidelines and other rules that balance prudential considerations and the need for institutions to compete. | Percentage of knowledgeable observers who rate OSFI as good or very good at developing regulations, guidelines and other rules that strike an appropriate balance between prudential considerations and the need for institutions to compete. *Source: Report on Financial Institutions Survey 2010* | 50% | 67% |
| Regulations, guidelines and other rules which are clear and scrutinized by industry. | Percentage of knowledgeable observers who rate OSFI's guidance as somewhat or very effective in providing an indication of OSFI's expectation. *AND/OR* Percentage of knowledgeable observers who rate OSFI as good or very good at consulting with industry on the development of regulations, guidelines and other rules. *Source for both: Report on Financial Institutions Survey 2010* | 75%<br>60% | 89%<br>77% |
| **Sub-Activity 1.1.3: Approvals and Precedents** | | | |
| Prudentially sound decisions which are transparent. | Percentage of knowledgeable observers who understand somewhat or very well the basis upon which OSFI makes its decisions as part of the approval process. *Source: Report on Financial Institutions Survey 2010* | 85% | 85% |
| Regulatory approvals which are timely. | Percentage of completed applications for regulatory approvals that are processed within established performance standards. *Source: Internal* | 90% | 99% |

**Performance Summary and Analysis of Program Activity**

Risk Assessment and Intervention

Throughout 2011-2012, OSFI continued to exercise a heightened level of monitoring of financial institutions and markets, and took action to achieve strategic priorities by: developing supporting guidance for the updated Supervisory Framework; strengthening the design and application of supervisory processes; conducting significant cross-sector reviews in several areas, including capital adequacy and corporate governance; and communicating our expectations for risk management to FRFIs.

OSFI remained concerned about risks in the global economy, as vulnerabilities that first surfaced in global credit markets in 2007 have not been fully resolved. The global outlook continued to be clouded by sovereign (particularly European) indebtedness, political unrest, and inflation driven by commodity and food prices, and a protracted weak economic recovery in the United States.

Domestically, rising household indebtedness is seen as a source of systemic vulnerability. i.e. since many households are increasingly vulnerable to adverse economic shocks.

OSFI continued to collaborate with international and domestic partners to develop and implement improved risk management and supervisory practices as follows:

- enhanced collaboration with the Bank of Canada and the Department of Finance on analysis of macroeconomic and systemic risk issues.
- worked with various domestic partners on the Financial Institutions Supervisory Committee (FISC - the Bank of Canada, the Department of Finance, the Canada Deposit Insurance Corporation, and the Financial Consumer Agency of Canada) to review lessons learned, and to discuss and coordinate issues related to the oversight of the financial sector.
- continued to participate actively in international forums to develop and implement best practices. These included the Financial Stability Board, the Basel Committee on Banking Supervision, the Senior Supervisors Group and the International Association of Insurance Supervisors.

OSFI also:

- began updating internal guidance to support its risk-based Supervisory Framework (introduced in 1999 and updated in 2011). The framework considers an institution's inherent business risks, risk management practices (including corporate governance) and financial condition. It supports our ability to identify and assess material risk to an institution that could result in potential loss to depositors or policyholders.
- took steps to improve the breadth and depth of analysis through targeted research supporting the Emerging Risk Committee (ERC). OSFI's ERC strengthens early identification and tracking of developments or events that might have a serious impact on, or indicate a future hazard for, FRFIs.
- held annual risk management sessions with various industry segments (DTIs, life insurance, and P&C insurance companies) to reinforce the need for effective corporate governance and strong risk management, and to share lessons learned.
- conducted another macroeconomic stress-testing exercise, in conjunction with the Bank of Canada, for the banking industry by prescribing a common scenario to participating financial institutions, in order to better understand, and to increase their awareness about, potential system-wide risks and vulnerabilities.
- continued to work with the large banks on developing acceptable Recovery Plans as prescribed by the Financial Stability Board setting out the bank's options to recover financial strength should it come under severe stress; and working with Canada Deposit Insurance Corporation (CDIC) who is leading the development of Resolution Plans to enable an orderly resolution should recovery action fail.
- hosted Supervisor Colleges for two of Canada's largest banks, in line with Financial Stability Board (FSB) recommendations, which brought together executives from each bank with supervisors from several jurisdictions where they do business. OSFI also hosted the second such college for a large life insurance company.
- worked closely with the banking industry to evaluate the impacts of the 2012 IFRS transition, and will continue to work with the industry to evaluate their capital and liquidity management strategies in light of new standards under Basel III.

- continued to monitor and provide guidance to the Life Insurance industry on risk mitigation strategies, specifically, OSFI asked a selected number of life insurers and life reinsurers, representing over 98% of the Canadian life insurance industry, to complete stress tests based on standardized scenarios. OSFI reviewed the results of the exercise, shared the aggregate results with industry, and is using them to determine if there are any significant changes in the risk profile of each life insurer.

Regulation and Guidance

During 2011-2012, OSFI continued to promote sound risk management practices through its rule-making activities. OSFI's emphasis on robust risk management systems at financial institutions is reflected in the fact that the World Economic Forum continues to rank Canada's banking system as the world's soundest.

OSFI continued its participation in the development of international rules. Specifically, OSFI:

- strengthened relationships with foreign supervisors by participating in international rule-making discussions, participating in and hosting several international supervisory colleges, and developing information-sharing agreements with a number of host-country supervisory authorities that regulate significant foreign operations of Canadian banks and insurers.
- worked with the International Accounting Standards Board (IASB) and International Auditing and Assurance Standards Board (IAASB) through active participation and leadership in the Accounting Task Force of the BCBS and the Accounting and Auditing Issues Subcommittee of the International Association of Insurance Supervisors (IAIS).
- through membership on the Accounting and Auditing Issues Subcommittees, significantly contributed to the IASB on their key insurance project, IFRS 4 Insurance Contracts (Phase II). Additionally, OSFI provided leadership to various other IASB and IAASB requests for views.
- participated in a number of IAIS technical, budget and implementation committees, the Supervisory Forum and several subcommittees. In 2011, OSFI held the chair of the ComFrame Oversight Group which is working on the development of a solvency and supervisory common framework for internationally active insurance groups. OSFI is also participating in the development of a methodology to assess which, if any, insurance companies may be global systemically important insurance institutions and the supervisory measures that would apply to G-SIIs.
- continued its involvement with a number of other international groups, including the Integrated Financial Supervisors, Association of Supervisors of Banks of the Americas, and International Actuarial Association.
- worked actively with Basel Committee on Banking Supervision (BCBS) members to develop and issue new rules for sound risk management and capital regulation. Working with the Standards Implementation Group, OSFI is providing leadership and resources to analyzing and reviewing the consistency of member countries' calculations with respect to implementation of Basel standards.
- continued its active membership in the Joint Forum, including participation in directing the various reviews and active participation in work streams relevant to our goals.
- continued its close involvement with the FSB through its membership on the FSB Plenary, Steering Committee, and Standing Committee on Supervisory and Regulatory Cooperation. In 2011-2012, OSFI participated in initiatives to promote international cooperation and

information exchange, reviews of compensation practices, work towards effective resolution of systemically important financial institutions, strengthening the intensity and effectiveness of the supervision of systemically important financial institutions, the development of the FSB principles for sound residential mortgage underwriting practices, actions to strengthen oversight and regulation of shadow banking, and work to enhance financial institutions' risk disclosure practices.

With respect to capital adequacy, OSFI:

- released one guideline and three advisories related to the measurement of capital and capital adequacy of banks and trust and loan companies:
    - Guideline A-1 Capital Adequacy Requirements (December 2011)
    - Phase-in of impact of International Financial Reporting Standards (IFRS) for Capital Adequacy Purposes (October 2011)
    - Non-Viability Contingent Capital (August 2011 – Final)
    - Whole Loan Sales and ACM Calculation (May 2011)
- issued Prudential Limits and Restrictions Guideline B-6 on liquidity risk management applicable to banks, bank holding companies, and trust and loan companies. The guideline reflects international standards that emphasize the principles by which an institution's liquidity risk management framework will be assessed by OSFI supervisors.
- undertook its annual update of the Minimum Continuing Capital and Surplus Requirements (MCCSR) guideline during 2011, with the revised version coming into effect for the 2012 fiscal year.
- issued Guideline A-4, Internal Target Capital Ratio for Insurance Companies. The guideline sets out OSFI's expectations for federally regulated life insurance, and property and casualty insurance, companies with respect to the setting of an internal target capital ratio.
- continued to consult stakeholders in the life insurance industry. A third Quantitative Impact Study (QIS) was issued to gather information related to potential methods for determining the capital requirements for credit, market and insurance risks. Industry submissions were received in early 2012 and the results are being analyzed.
- issued the paper "Evidence for Mean Reversion in Equity Prices" explaining the rationale behind its decision not to review requests for approval to use internal models that incorporate mean reversion in equity returns.
- released an updated version of the Minimum Capital Test (MCT) Guideline. The guideline reflected OSFI's ongoing intention to make the P&C insurance capital test more risk-based and to bring greater consistency with the capital requirements of other financial sectors.
- continued developing a new capital framework for its standardized MCT approach with the objective of improving fairness, effectiveness and efficiency. This initiative is in keeping with OSFI's long-term plans and priorities to ensure the MCT remains a sensitive and forward looking risk management tool.

OSFI also:

- continued to work closely with the Department of Finance in the development of amendments to the legislation and supporting regulations following the review of legislation governing federally regulated financial institutions completed in 2012.

- collaborated with the Canadian Auditing and Assurance Standards Board (AASB), and participated in a Canadian Institute of Chartered Accountants/Canadian Institute of Actuaries Joint Task Force to review auditing guidelines. OSFI is a member of the Canadian Accounting Standards Board's User Advisory Council and the Other Non-assurance Reporting Task Force of the Canadian Auditing and Assurance Standards Board (AASB). OSFI is also a non-voting member of the Auditing and Assurance Standards Oversight Council, which oversees the activities of the AASB.
- worked closely with the Canadian Institute of Actuaries and the Actuarial Standards Board to ensure that actuarial standards are appropriate and lead to acceptable practice in areas such as valuation, risk and capital assessment, at entities regulated by OSFI. OSFI also continued to participate on several CIA practice committees and consulted with the CIA on developments related to its work on a new solvency framework for life insurance companies.
- participated in the development of two consultation papers published by the Department of Finance proposed regulatory changes designed to strengthen the Canadian Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) regime. OSFI will continue to be consulted on measures the Government of Canada may take to implement them.

During 2011-2012, OSFI issued the following:

- a letter to the industry in response to the new or amended IFRS issued in May and June of 2011 – Consolidation suite of standards, IFRS 13 Fair Value Measurement, amendments to IAS 19 Employee Benefits and amendments to IAS 1 Presentation of Items in Other Comprehensive Income.
- guidance that sets out expectations regarding implementation of the ICA requirements as well as those found in the Policyholders Disclosure Regulations.
- a draft (for comment) revised Appointed Actuary Guideline that places more focus on the process acting as a consultation aid to the AA and assisting OSFI in its assessment of the insurer's actuarial function.
- a draft (for comment) guideline on Residential Mortgage Underwriting Practices and Procedures which reflects and expands upon the Financial Stability Board's Principles for Sound Residential Mortgage Underwriting (issued in the fall of 2011). The guidance sets out OSFI's expectations for FRFIs in addressing the risk inherent in mortgage underwriting activities, such as high household indebtedness and other vulnerabilities.
- continued its AML/ATF supervisory assessment program and regular follow up work at a wide variety of large and small financial institutions. We continued to identify issues related to financial institutions' ability to identify high risk customers, apply enhanced scrutiny to them and their activities and provide effective auditing of their programs. Where necessary, OSFI intervened to ensure that institutions improved their controls and addressed weaknesses and deficiencies. OSFI continued to share supervisory findings with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) under its joint Memorandum of Understanding. OSFI also intensified its review of AML/ATF programs planned by those applying to establish new FRFIs.

Approvals and Precedents

In keeping with OSFI's and the Government of Canada's commitment to enhance accountability and transparency relating to services provided, OSFI has performance standards that establish

time frames for processing applications for regulatory approval and for other services. In 2011-2012, OSFI met or exceeded all of these standards.

OSFI also:

- continued to make every effort to ensure applicants were not impeded from following viable business strategies, and that requests for regulatory approvals were processed on a consistent and timely basis.
- processed 222 applications involving 347 approvals (individual applications often contain multiple approval requests), of which 23% were Ministerial approvals. Of the 222 applications, 188 were approved and 34 were withdrawn. This represents a small increase in completed applications over the previous year, when 209 applications involving 284 approvals were processed.

**Lessons Learned**

OSFI conducts rotating consultations with key stakeholders in various industry sectors, which allow the organization to assess its effectiveness and fulfill its commitment to continuous improvement. During 2011-2012, a confidential consultation with property and casualty insurance companies was conducted to explore industry perceptions of OSFI's performance. Findings from this consultation can be found at:
http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=649

An important lesson from the multi-national responses to the financial crisis has been the importance of coordinating policy initiatives to identify and address the interaction of incentives of different policies and facilitating industry feedback. OSFI has continued to devote a high level of effort to the IAIS, FSB and Basel technical groups, particularly for banks in the areas of liquidity and central counterparty capitalization given their impact on capital incentive structures for exposure to capital markets and each other. For insurers, there is particular emphasis on the development of a common assessment framework for internationally active insurance groups. As well, support for the review of the implementation of bank capital rules by peer regulators will be a priority going forward.

A lesson reconfirmed this past year is how important disclosure and transparency are to understanding risks of a FRFI. Canadian banks are strong in their disclosures but when markets experience uncertainty there is a need for increased disclosures on a timely basis. OSFI has made it a priority to work for enhanced disclosures. We have been reviewing Canadian banks' disclosure relative to global banks and market demands for improvements to assess and compare the quality of Canadian disclosures and encouraging change. For example, as part of the OSFI Guideline B-20 Residential Mortgage Underwriting Practices and Procedures, enhanced disclosures are set out to cover the risk in banks' residential mortgages.

## Program Activity 1.2: Regulation and Supervision of Federally Regulated Private Pension Plans

This program involves regulating and supervising federally regulated private pension plans to determine whether they are meeting minimum plan funding requirements and are complying with their governing law and supervisory requirements. This program provides risk assessments of pension plans covering employees in federally regulated areas of employment; timely and effective intervention and feedback to protect the financial interests of plan members and beneficiaries from undue loss, while recognizing that plan administrators are ultimately responsible, and that plans can fail; a balanced relevant regulatory framework; and a prudentially effective and responsive approvals process. This program incorporates risk assessment and intervention, regulation and guidance, and approvals and precedents related to federally regulated private pension plans under the *Pension Benefits Standards Act*, 1985. The costs for this program are recovered from pension plan fees based on the number of members in each federally regulated pension plan.

| 2011-2012 Financial Resources ($ millions) | | |
|---|---|---|
| **Planned Spending** | **Total Authorities** | **Actual Spending** |
| $5.6 | $5.6 | $5.5 |

| 2011-2012 Human Resources (FTEs) | | |
|---|---|---|
| **Planned** | **Actual** | **Difference** |
| 26 | 28 | (2) |

The $0.1 million under spending against plan is attributed to savings in travel and other discretionary spending. This is partially offset by the costs associated with an increase of 2 FTEs, primarily related to succession planning measures.

The related expected results, performance indicators, targets, and performance status for this program activity are identified in the summary below.

| Program Activity 1.2: Regulation and supervision of federally regulated private pension plans | | | |
|---|---|---|---|
| **Expected Results** | **Performance Indicators** | **Targets** | **Actual Results** |
| Protect the financial interests of federally regulated private pension plan members and beneficiaries. | Percentage of estimated recoveries on pension plans that have terminated under-funded.<br>*Source: Internal Data* | 85% | 94% |
| Regulations, guidelines and other rules which are clear and balanced. | Percentage of knowledgeable observers that rate OSFI's guidance as somewhat or very effective in providing an indication of OSFI's expectations.<br>*AND/OR* | 75% | 81% |

| Program Activity 1.2: Regulation and supervision of federally regulated private pension plans | | | |
|---|---|---|---|
| **Expected Results** | **Performance Indicators** | **Targets** | **Actual Results** |
| | Percentage of knowledgeable observers who rate OSFI as being good or very good at developing regulations[7], guidelines and other rules that strike an appropriate balance between interests of plan sponsors and plan members. *Source for both: Pension Plans Survey 2011 Final Report*[8] | 50% | 65% |
| Regulatory approvals which are timely and transparent. | Percentage of knowledgeable observers that understand somewhat or very well the basis upon which OSFI makes its decisions as part of the approval process. *Source: Pension Plans Survey 2011 Final Report*<br>*AND/OR*<br>Percentage of completed applications for regulatory approvals that are processed within established benchmarks. *Source: Internal* | 60%<br><br>90% | 63%<br><br>99% |

**Performance Summary and Analysis of Program Activity**

Risk Assessment, Supervision and Intervention

The main pillars of OSFI's risk assessment framework for pension plans are: tiered risk indicators, solvency testing, on-site examinations, the watch list, use of intervention powers and ad hoc reviews. During 2011-2012, OSFI:

- continued to encourage plan administrators to use techniques to manage risks to their pension plans, including stress testing. In August 2011 OSFI issued a Stress Testing Guideline for Plans with Defined Benefit Provisions.
- identified potential problems in defined benefit pension plans through a semi-annual estimated solvency ratio exercise. Also, in early 2012, OSFI contacted those plans who, it was estimated, could potentially experience a material increase in funding requirements.
- continued to monitor the condition of private pension plans and, to the extent possible, that of their sponsors.
- continued to modernize the tools it uses to monitor and supervise pension plans. In particular, OSFI is in the final stages of introducing an important initiative to upgrade the

[7] In 2011, the word "regulations" was removed from the survey question to better reflect OSFI's role as OSFI does not develop "regulations". The question now reads "how would you rate OSFI with respect to developing guidance that strikes an appropriate balance between the interests of plan sponsors and of plan members". A split sampling approach was utilized to help understand what impact changing the wording would have on the tracking of results. There was no impact observed. The results presented are based on the revised question.

[8] OSFI provided Harris Decima, an independent research firm, with a list of administrators and professional advisors of the federally regulated private pension plans it regulates. The research firm invited the administrators and professionals to participate in either an online or a telephone survey – 323 surveys were completed resulting in a response rate of 36%. OSFI does not know which administrators or professional advisors participated. The report is available at http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=649.

pension supervisory system supporting its risk assessment framework, which will be implemented early next year.

- intervened when necessary, including taking measures to enforce minimum funding requirements and ensure timely remittance of contributions. OSFI required some plans to restrict portability of benefits in order to stop the impairment of the pension fund. It also used its authority to replace plan administrators and to terminate pension plans whose future was uncertain in order to provide equitable treatment of all members and beneficiaries.

Regulation and Guidance

During 2011-2012, OSFI:

- continued to communicate with pension plan stakeholders on the status and timing of legislative reforms that were announced by the Government of Canada in October 2009. OSFI also worked closed with the Department of Finance to support the implementation of those changes.
- provided technical support to Pooled Retirement Pension Plans, which became a key element of the Government of Canada's policy agenda in 2011.
- continued to publish policy advisories, guidance and directives and to review and update previously published documents to reflect amendments made to the legislation and regulations. OSFI published the draft Guideline for Preparation of Actuarial Reports for Defined Benefit Pension Plans in May 2011, also the draft Policy Advisory for Buy-in Annuity Products and an updated draft Instruction Guide for Authorization of Amendments Reducing Benefits in Defined Benefit Pension Plans in January 2012.
- continued to promote responsible pension plan governance and actuarial practices by working closely with the Canadian Association of Pension Supervisory Authorities (CAPSA). Of note in 2011-2012 was CAPSA's publication of the *Guideline on Pension Plan Prudent Investment Practices and Self-Assessment Questionnaire* and the *Guideline on Pension Plan Funding Policy*.

Approvals and Precedents

OSFI continued to focus on timeliness for pension approvals while ensuring complex transactions were carefully considered. The number of transactions requiring approval decreased compared to the previous year. The number of outstanding requests for the Superintendent's approval at year end was 20% lower than a year earlier. OSFI processed 60 applications for approval and received 54 new requests, compared to 88 processed applications and 72 new requests in 2010-2011. In the past two years, requests for registration of new plans have declined substantially. In addition, OSFI no longer receives requests for approval of defined contribution (DC) assets transfers, due to legislative changes adopted in July 2010.

**Lessons Learned**

OSFI conducts rotating consultations with key stakeholders in various industry sectors, which allow OSFI to assess its effectiveness and fulfill its commitment to continuous improvement. During 2011-2012, a survey of plan administrators and professional advisors of federally regulated private pension plans was conducted to explore industry perceptions of OSFI's performance. Findings from this study can be found at:
http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=649

Over the past fiscal year, federally regulated private pension plans operated in an environment of renewed economic uncertainty, equity market volatility and further declines in long-term interest rates. The solvency position of defined benefit plans declined significantly in 2011, due primarily to the effects of lower interest rates on plan liabilities. Although the impact of lower solvency ratios on pension plans' funding requirements will be moderated by recently implemented changes to federal funding rules, OSFI expects many defined benefit pension plans to face materially higher required contributions in 2012. The current environment also poses challenges for members of defined contribution pension plans in achieving their retirement savings and income objectives.

OSFI continues to emphasize the importance of effective risk management by pension plan administrators.

## Program Activity 1.3: International Assistance

This program incorporates activities related to providing assistance to selected developing and emerging market economies to improve their supervisory systems in line with international banking and insurance supervisory standards, thereby enhancing the stability of the global financial system. In order to achieve efficiency and economy in program delivery and training of supervisors from many different jurisdictions, this program also collaborates with a number of regional banking and insurance associations and other technical assistance providers such as the Financial Stability Institute. The costs for this program are recovered via Memoranda of Understanding between OSFI and the Canadian International Development Agency.

| 2011-2012 Financial Resources ($ millions) | | |
|---|---|---|
| **Planned Spending** | **Total Authorities** | **Actual Spending** |
| 0.0 | 0.0 | 0.0 |

| 2011-2012 Human Resources (FTEs) | | |
|---|---|---|
| **Planned** | **Actual** | **Difference** |
| 0 | 0 | 0 |

### Performance Summary and Analysis of Program Activity

Effective March 31, 2010, OSFI ceased its International Assistance program activity, which provided technical assistance to supervisory systems in emerging market economies. The Canadian International Development Agency (CIDA) has continued the program in partnership with the Toronto International Leadership Centre for Financial Sector Supervision.

OSFI's Program Activity Architecture was modified during 2011-2012 to reflect the elimination of this program activity, through an annual update process coordinated by the Treasury Board Secretariat.

### Lessons Learned

Not applicable - see performance summary above.

## Strategic Outcome 2

***A financially sound and sustainable Canadian public retirement income system.***

### Program Activity 2.1: Actuarial Valuation and Advisory Services

The federal government and the provinces, through the Canada Pension Plan (CPP), public sector pension arrangements and other social programs have made commitments to Canadians and have taken on emanated responsibility for the financing of these commitments. Some are long-term and it is important that decision-makers, Parliamentarians and the public understand these and the inherent risks. This program activity plays a vital and independent role in this process. It provides checks and balances on the future costs of the different pension plans under its responsibilities.

This program activity provides a range of actuarial services to the stewards of the CPP and some federal government departments. As required by legislation, it conducts statutory actuarial valuations of the CPP, Old Age Security (OAS) and Canada Student Loans programs, and pension and benefits plans covering the Federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police (RCMP), federally appointed judges, and Members of Parliament.

The Office of the Chief Actuary (OCA) is funded by fees charged for its actuarial valuation and advisory services and by an annual parliamentary appropriation.

This program activity has three sub-activities:

1. Services to the CPP and OAS Program: This program involves the conduct of statutory actuarial valuations of the CPP and OAS Program. These valuations estimate the financial status of these plans and programs as required by legislation. This program estimates long-term expenditures, revenues and current liabilities of the CPP and estimates long-term future expenditures for OAS programs. Pursuant to the *Canada Pension Plan* and the *Public Pensions Reporting Act*, the OCA prepares statutory triennial actuarial reports on the financial status of these programs, as required by legislation.
2. Services to Public Sector Pension and Insurance Programs: This program involves the conduct of statutory actuarial valuations of various federal public sector employee pension and insurance plans. These valuations estimate the financial status of these plans as required by legislation. Pursuant to the *Public Pensions Reporting Act*, this program involves preparing statutory triennial actuarial reports on the financial status of federal public sector employee pension and insurance plans covering the federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police, the federally appointed judges and Members of Parliament. This program supports plan members, thereby serving the public interest, by ensuring good governance of the plan, appropriate disclosure in the actuarial reports and contributing to the overall accountability of the plan sponsor to members. This program also involves the provision of sound actuarial advice that assists different government departments in the design, funding and administration of these plans. As part of this program, the Chief Actuary submits the actuarial reports to the

President of Treasury Board, with the exception of the Actuarial Report on the RCMP (Dependants) Pension Fund, which is submitted to the Minister of Finance.

3. Services to the Canada Student Loans Program (CSLP): Pursuant to the *Canada Student Financial Assistance Act,* this program involves the conduct of statutory actuarial valuations of the CSLP. The program also involves the preparation of a statutory actuarial report of the CSLP by evaluating the portfolio of loans and the long-term costs of the program. As part of this program, the Chief Actuary submits the actuarial report to the Minister of Human Resources and Skills Development Canada.

| 2011-2012 Financial Resources ($ millions) | | |
|---|---|---|
| **Planned Spending** | **Total Authorities** | **Actual Spending** |
| $4.5 | $4.5 | $4.2 |

| 2011-2012 Human Resources (FTEs) | | |
|---|---|---|
| **Planned** | **Actual** | **Difference** |
| 33 | 29 | 4 |

Program Activity 2.1 is supported by three distinct Sub-Activities: CPP and OAS, Public Pension Plans, and Canada Student Loans. The related expected results, performance indicators, targets, and performance status are identified in the summary table below.

| Program Activity 2.1: Actuarial Valuation and Advisory Services | | | |
|---|---|---|---|
| **Expected Results** | **Performance Indicators** | **Targets** | **Actual Results** |
| Stewards of Canada's public retirement income system are provided with independent, accurate, high quality and timely professional actuarial services and advice. | Adequacy of professional experience of the Chief Actuary and staff.<br>*AND/OR*<br>Compliance with Canadian and international professional standards. | Unanimous agreement amongst peers*<br>Unanimous agreement amongst peers* | Unanimous agreement<br>Unanimous agreement |
| **Sub-Activity 2.1.1: Canada Pension Plan and Old Age Security** | | | |
| Accurate and high quality actuarial valuations inform CPP and OAS stakeholders and Canadians of the current and projected financial status of the Plan and Program. | Reviews are comprehensive (methods, assumptions, analysis).<br>*AND/OR*<br>Percentage of the recommendations within the scope and influence of the OCA that are implemented before the next peer review. | Unanimous agreement amongst peers*<br>80% | Unanimous agreement<br>In progress (next peer review in 2014) |
| CPP and OAS Triennial Actuarial Reports | Timeliness of tabling in Parliament of Reports on CPP & OAS. | 100% by the deadline | 100% by deadline |
| **Sub-Activity 2.1.2: Public Pension Plans** | | | |
| Accurate and high quality | Reviews are comprehensive | Unanimous | Unanimous agreement |

| Program Activity 2.1: Actuarial Valuation and Advisory Services | | | |
|---|---|---|---|
| **Expected Results** | **Performance Indicators** | **Targets** | **Actual Results** |
| actuarial valuations of Public Pension and Insurance Plans provided to departments to inform design, funding and administration of plans. | (methods, assumptions, analysis). *AND/OR*<br><br>Actuarial opinion is appropriate. | agreement amongst peers*<br><br>Unanimous agreement amongst peers* | <br><br>Unanimous agreement |
| Public Sector Triennial Actuarial Reports | Timeliness of tabling in Parliament of Reports on Public Pension Plans. | 100% by the deadline | 100% by deadline |
| **Sub-Activity 2.1.3: Canada Student Loans** | | | |
| Accurate and high quality actuarial valuations of the CSLP inform the Department of Human Resources and Skills Development Canada (HRSDC) of the future costs and provision rates of the program. | Actuarial valuations of the CSLP are comprehensive (accurate, high quality) and informative of future costs and provision rates of the program. | Annual renewal of the MOU with HRSDC | MOU with HRSDC was renewed |
| Actuarial Report on the CSLP | Timeliness of tabling in Parliament of Reports on Canada Student Loans. | 100% by the deadline set by HRSDC | 100% by deadline |
| *Independently selected panel of peers. | | | |

**Performance Summary and Analysis of Program Activity**

Tabling of the 9th and 10th Actuarial Reports on the Old Age Security Program

The Chief Actuary is required by law to produce an actuarial report on the Old Age Security (OAS) Program every three years or whenever a bill is introduced before Parliament that has a significant impact on the financial status of the OAS program. The *9th Actuarial Report on the Old Age Security Program as at 31 December 2009* was tabled on July 20, 2011. Prepared by the Office of the Chief Actuary, this triennial actuarial report on the OAS program provides information on the program's future expenditures for the next 50 years. The report facilitates a better understanding of the status of the Program and the factors that influence its costs, contributing to an informed public discussion of issues related to it.

Part 3 of Bill C-3, the *Supporting Vulnerable Seniors and Strengthening Canada's Economy Act*, received Royal Assent on June 26, 2011. It amended the *Old Age Security Act* to provide a top-up benefit for lower-income Guaranteed Income Supplement (GIS) recipients. As required by the legislation, the Chief Actuary has prepared the *10th Actuarial Report Supplementing the Actuarial Report on the Old Age Security Program as at 31 December 2009* in order to show the effect of this bill on the long-term financial status of the OAS. This report was tabled before the Parliament on November 4, 2011.

The OAS program is one of the cornerstones of Canada's retirement income system. Benefits include the basic OAS pension, the GIS and the Allowance. The program is financed from

Government of Canada general tax revenues. The basic OAS pension is a monthly benefit available to most Canadians 65 years of age or over who meet residence requirements. The GIS and the Allowance are monthly benefits paid to residents of Canada who receive a basic, full or partial OAS pension, and who have little or no other income.

In 2011, about five million Canadians received OAS benefits, with a total value of approximately $38 billion or approximately 2.4% of the gross domestic product (GDP). The reports' key findings show that over the long term – as larger numbers of Canadians reach age 65 and life expectancy continues to increase – total OAS expenditures are projected to increase to $108 billion or 3.2% of GDP in 2030.

External Peer Review of the 25th CPP Actuarial Report

External peer reviews of CPP actuarial reports and their ensuing recommendations help ensure that the OCA continues to provide a valuable service with tangible benefits to Canadians. The OCA released, in May 2011, the findings of an external peer panel commissioned to review the 25th Actuarial Report on the CPP. Key findings were reported in the 2010-2011 Annual Report and the complete review report is available on the OSFI website under Office of the Chief Actuary.

The peer review resulted in 15 recommendations dealing with various aspects of the report including data, methodology, communication of results, and other actuarial issues. The review requested the Chief Actuary to maintain the tradition of continual improvements to actuarial methods and to work towards addressing the needs of both the broad audience and more technical readers of actuarial reports. The OCA has either taken or plans to take action on these recommendations. In particular, the OCA will continue to broaden its sources of information before setting assumptions. The work performed by the Chief Actuary as Chairman of the ISSA Commission on Statistical, Actuarial and Financial Studies, the OCA Development Day held in October 2011, and the planned OCA inter-disciplinary seminar in September 2012, are aimed at gathering opinions from national and international experts. The OCA will also continue to obtain expert advice from various fields such as demographics, economics, statistics and investments.

To further increase the transparency and independence of the peer review process, an external party was responsible for the oversight of the review. The United Kingdom Government Actuary's Department (GAD) selected the peer review panel members and released an opinion in May 2011 on the work performed by the external panel. The GAD opinion noted that the work carried out for the review and the review report adequately address the issues set out in the terms of reference and that the three reviewers were able to reach agreement on all of the opinions and recommendations set out in the review report. (The GAD opinion is also available on the OSFI website.)

Canada Student Loans Program Actuarial Report

The statutory *Actuarial Report on the Canada Student Loans Program as at 31 July 2010* was tabled before Parliament on October 7, 2011, in accordance with the *Canada Student Financial Assistance Act*.

The report presents the results of an actuarial review of the Canada Student Loans Program (CSLP) as at July 31, 2010 and includes projections of future costs of the Program through loan year 2034-2035. An actuarial review of the CSLP is prepared to provide an evaluation of the Program's overall financial costs and increase the level of information available to Parliament and the public.

Public Sector Insurance and Pension Plans

The OCA completed and provided to the President of the Treasury Board for tabling before Parliament five actuarial reports in 2011-2012 with respect to the public sector insurance and pension plans, including actuarial reports as at March 31, 2010 on the pension plans for the Regular and Reserve Canadian Forces and the Members of Parliament, as well as on the Regular Force Death Benefit Account and on the Benefit Plan Financed through the Royal Canadian Mounted Police (Dependants) Pension Plan. These reports provide actuarial information to decision makers, Parliamentarians and the public, thereby increasing transparency and confidence in the retirement income system.

Chapter 3 of the 2012 Spring Report of the Auditor General of Canada discussed the reporting practices with regard to the public sector employee pension plans. It stressed the importance of monitoring and reporting on how those liabilities could affect the government's fiscal situation. The OAG further states that "Canada is a leader among member countries of the OECD in recognizing in its financial statements the obligations arising from the public sector employees' pension plans. Very few countries report public sector employee pension obligations on their financial statements." The OCA's Public Accounts Reports are an important part of this process and as such, supports Canada's achievement as a leader among OECD countries in this regard.

Services to the Canada Employment Insurance Financing Board

In 2011-2012, OSFI signed a Memorandum of Agreement with the Canada Employment Insurance Financing Board (CEIFB) with respect to actuarial services and other work to be undertaken by the OCA on behalf of the CEIFB in fulfillment of its responsibilities under the *Canada Employment Insurance Financing Board Act,* amendments to the *Employment Insurance Act*, and other relevant legislation. In March 2012, the CEIFB appointed Michel Millette, a Director and a Senior Actuary within the OCA, as Chief Actuary of the CEIFB. In particular, the Chief Actuary is responsible for providing the Board of Directors of the CEIFB with the actuarial forecasts and estimates necessary to set the Employment Insurance premium rate under Section 66 of the *Employment Insurance Act.*

Actuarial Studies

In 2011-2012, two actuarial studies were released by the Office of the Chief Actuary in response to recommendations by the external peer review panel: Canada Pension Plan Experience Study of Disability Beneficiaries - Actuarial Study No. 9 and Measuring the Financial Sustainability of the Canada Pension Plan - Actuarial Study No.10. Both studies support policy makers in developing and analyzing various policy options in the context of the Canada Pension Plan. The information presented in these studies could also benefit private sector organizations that evaluate social security or private pension plan schemes. Actuarial Study No. 10 concluded that the actuarial obligations of the CPP should be measured using an open group actuarial balance sheet approach that reflects the partially funded nature of the CPP. Such actuarial balance sheet,

based on inclusion of future contributions and associated benefits, confirms that the CPP will continue to meet its financial obligations and is sustainable over the long term.

**Lessons Learned**

The results of the external peer review released in March 2011 not only found that most aspects of the 25th Actuarial Report on the CPP were adequate, but also listed various recommendations for improvements for the next triennial review. The recommendations covered factors such as data, methodology, communication of results, and other actuarial issues. The OCA is developing an action plan to address these recommendations by the next external peer review in order to improve the quality of the reports, thus improving the OCA's actuarial services and advice. In particular, the peer reviewers welcomed changes to the 25th CPP Report that enhanced CPP stakeholders' understanding of the uncertainty inherent in the Chief Actuary's best-estimate of the future contribution rates. The OCA will continue searching for better ways to increase the understanding of the future costs and inherent risks of the programs under the OCA's scope by decision makers, Parliamentarians, and the public.

Public pension systems around the world drew a lot of attention throughout 2011-2012. Consequently, the OCA received an increase in requests from other government departments for estimating the costs of proposed changes to public pension plans. For example, as a result of the proposed Bill C-215, the OCA was requested to complete cost estimates of removing the integration provision of the Canadian Forces Superannuation Plan (CFSA) and the Royal Canadian Mounted Police Superannuation Plan (RCMPSA). The Office of the Parliamentary Budget Officer (PBO) engaged Mercer (Canada) Limited to review the materials and the reasonableness of the cost estimates of the proposed changes that were prepared by OCA. Mercer reviewed the approach used by OSFI regarding the plan change, the membership data and assumptions used for the purpose of the estimates, and the process used to validate the cost estimates. Following the review, Mercer concluded "that the increases in liabilities and current service costs presented by OSFI are reasonable." This ad hoc review demonstrated the importance of maintaining the highest working standards in view of increasing public scrutiny.

## Internal Services

OSFI's Internal Services program activity supports its two strategic outcomes. Activities include developing and implementing cost-effective, secure and reliable information management systems that contain relevant, accurate and timely internal and external data. These information systems are complemented by the development and delivery of effective financial, human resources and administration, security, internal audit, communication and administrative policies, advice and guidance. The objective is to ensure that OSFI has the processes and systems in place to enable a motivated and skilled workforce to focus on its supervisory and regulatory activities.

| 2011-2012 Financial Resources ($ millions) | | |
|---|---|---|
| **Planned Spending** | **Total Authorities** | **Actual Spending** |
| $49.7 | $49.7 | $52.3 |

| 2011-2012 Human Resources (FTEs) | | |
|---|---|---|
| **Planned** | **Actual** | **Difference** |
| 163 | 174 | (11) |

Actual spending is $2.6 million higher than planned, largely driven by costs for retrofitting incremental office space to accommodate OSFI's higher staff complement and an increase in personnel costs, as outlined in the "Summary of Performance" section of this report. This is partially offset by revised timelines and more accurate cost estimates for OSFI's Information Technology Renewal (ITR) initiatives.

**Performance Summary and Analysis of Program Activity**

Promoting Internal Communication

In 2011-2012, OSFI's internal communication strategy focussed on engaging its employees and promoting transparency. In addition to @OSFI, the daily online internal newsletter, employees were informed of office developments and major initiatives through regular town hall meetings and memos from the Superintendent, members of the Executive Committee and senior management. Throughout the year, OSFI's positions on current issues were shared with employees through the internal posting of key messages. Orientation sessions and in-house presentations by subject-matter experts helped new and existing staff learn more about OSFI processes, and changes within OSFI and in the external environment.

Managing Risks to the Working Environment

OSFI completed a review of the Security and Administration Services unit to ensure adequate resources are in place to support the security program and further mitigate risk to OSFI's security profile. OSFI also increased its leased space portfolio in both the Ottawa and Toronto offices to accommodate an increase in staff.

Renewing Technology and Systems

The IM/IT division continued to follow a multi-year renewal strategy during 2011-2012. Earlier investments laid the foundation for system upgrades that are now being implemented. Significant

progress was made on key systems projects, including: a new pension plan supervisory system; upgrades to OSFI's website, and to document and records management software, business intelligence and reporting capabilities; and, finalizing procurement for the new Tri-Agency Database System (used by OSFI, the Bank of Canada and the Canada Deposit Insurance Corporation to collect, validate, manage and maintain financial returns).

Managing Human Resource Challenges

To achieve its strategic outcomes, OSFI's priority is to have a high-performing and effective workforce. This is facilitated by reviewing and updating its HR Strategy and HR Plan on an annual basis.

In 2011-2012, external issues – continuing risks to the global economy; transformational regulatory changes in areas such as insurance capital, accounting rules and Basel III implementation; and higher standards for effective risk management and governance – continued to have a significant impact on OSFI's business and human capital. Internal factors were equally important – focusing on new priorities, dealing with an aging workforce, ensuring continuous learning and development, and having the right people and processes in place to conduct our business in a period of government restraint.

To mitigate these risks, a number of priorities were identified through the HR planning process and actions taken to address gaps:

- Staffing levels were increased in specific areas, as a result of a review of resources in light of additional pressures and risks in areas such as life insurance, capital requirements and Basel III.
- Learning needs were reviewed and prioritized to ensure mandated training (IT renewal, management orientation, awareness of the Official Languages Act) and specialized training (International Financial Reporting Standards, liquidity) took place. At the same time, individual learning plans were introduced and completed for all employees, including for senior staff.
- While an estimated 20% of OSFI employees were eligible for retirement during the three-year HR planning period, retirements to date have not met projections. Nevertheless, work continued on knowledge transfer mechanisms, recruitment and retention strategies, and succession plans to deal with potential retirements, especially for critical and specialized positions.
- A market survey was conducted to ensure OSFI's compensation structure remains competitive, in order to attract and retain the appropriate people. Similar surveys will be conducted on an annual basis.
- A bi-annual employee survey was conducted to monitor employee engagement, and to identify areas of improvement. The participation rate was high (80%) and the results indicated an overall employee commitment rating of 3.4 on a four point scale demonstrating a continuing high degree of engagement.

These measures will enable OSFI to manage its workforce effectively.

# SECTION III: SUPPLEMENTARY INFORMATION

## Financial Highlights

OSFI is funded mainly through asset-based, premium-based or membership-based assessments on the financial institutions and private pension plans that OSFI regulates and supervises, and a user-pay program for selected services. OSFI also receives revenues for cost-recovered services and a very small parliamentary appropriation for actuarial services relating to public sector employee pension and insurance plans.

OSFI operated on a full accrual accounting basis in accordance with International Financial Reporting Standards (IFRS). Overall, OSFI recovered all its expenses for the fiscal year 2011-2012. The tables and charts below provide highlights from OSFI's Statement of Financial Position and Statement of Operations and Total Comprehensive Income, as presented in its audited financial statements. As such, there are differences between these tables and those presented in other sections of the Departmental Performance Report, which are prepared on the appropriation basis of accounting in accordance with the Guide to the Preparation of Part III of the 2011-2012 Estimates. Typically the differences result from the accounting treatment of capital expenditures and accounts receivable.

**Condensed Statement of Financial Position**
As at March 31, 2012 ($ thousands)

| | % Change | 2011-2012 | 2010-2011[9] |
|---|---|---|---|
| Total assets | 0.7% | $67,459 | $66,968 |
| Total liabilities | 1.2% | $42,471 | $41,980 |
| Equity of Canada | 0.0% | $24,988 | $24,988 |
| | 0.7% | $67,459 | $66,968 |

The change in OSFI's total assets is predominantly attributed to an increase in capital related to informatics infrastructure and internally developed software as a part of OSFI's Information Technology Renewal (ITR) program.

The change in OSFI's total liabilities is mainly attributed to increases in accrued salaries and benefits related to an additional day of unpaid salary over the year end, higher sick leave and severance actuarial valuations, and an amount payable in accordance with collective agreements.

[9] Differs from the Condensed Balance Sheet in OSFI's 2010-2011 Departmental Performance Report, which was prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). OSFI adopted IFRS April 1, 2010.

**Condensed Statement of Operations and Total Comprehensive Income**
For the year ended March 31, 2012 ($ thousands)

| | % Change | 2011-2012 | 2010-2011 |
|---|---|---|---|
| Total expenses | 14.4% | $124,005 | $108,438 |
| Total revenues | 14.8% | $124,005 | $108,058 |
| **Net cost of operations** | 100.0% | $ - | $ (380) |

OSFI matches its revenue to its operating costs. The 14.4% increase in OSFI's expenses is largely related to the growth in FTEs and increases in personnel costs as explained in the "Expenditure Profile" section of this report.

## Financial Statements

OSFI's Audited Financial Statements, which are published in the Annual Report can be found on the OSFI website.[ii]

## List of Supplementary Information Tables

Electronic supplementary information tables listed in the 2011–12 Departmental Performance Report can be found on OSFI's website[iii].

1. Green Procurement
2. Internal Audits
3. Sources of Respendable and Non-Respendable Revenue
4. User Fees/External Fees

# SECTION IV: OTHER ITEMS OF INTEREST

## Organizational Contact Information

Website:
http://www.osfi-bsif.gc.ca

General enquiries:
Email: information@osfi-bsif.gc.ca
Phone: 1-800-385-8647 (Monday through Friday, between 8:30 a.m. and 6:00 p.m. (Eastern Time).

Head Office and mailing address:
255 Albert Street
Ottawa, Ontario
K1A 0H2
Canada

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[i] Public Accounts of Canada 2012, http://www.tpsgc-pwgsc.gc.ca/recgen/txt/72-eng.html
[ii] OSFI's Annual Reports, http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=647
[iii] http://www.osfi-bsif.gc.ca/app/DocRepository/1/dpr-rmr/2011-2012/eng/dpr-rmr-eng.htm#s3.3